

## City of Detroit

### CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director

DATE: November 8, 2007

24.

RE: Status of Proposed Ordinance amending Section 47-2-4 of the Detroit City Code to provide for an increase in Minimum Pensions for General Retirement System Retirees (**Departmental Report**)  
***Line Item 4 in today's Internal Operations Committee***

During last week's Internal Operations Committee meeting on Thursday, November 1, Mr. Gerald Fischer, a representative of the Detroit Retired City Employees Association (DRCEA), submitted a copy of an actuarial valuation to your Honorable Body (see attached).

The actuarial valuation supports Council's minimum pension benefit increase that you approved during the 2007-08 budget process. The Fiscal Analysis Division has been requesting for this actuarial report since this past July.

Council may recall, you appropriated \$866,000 in Non-Departmental for this General retiree pension improvement. In your schedule of changes to the Mayor's proposed 2007-08 budget, language supporting this increase was as follows:

"Increase minimum pension to \$360 per year for first 10 years and \$180 per year in excess of 10 years of service. Minimum pension will increase from \$6,000 to \$7,200 for a 30-year service retirement."

The actuary's report indicates that the first year cost for the General Fund is \$523,227 to implement this benefit increase. Over 15 years, this pension improvement will cost the General Fund approximately \$6.2 million. Consequently, the annual pension contribution factor for the General Fund will reflect an increase to cover this additional cost by year 15.

If the actuary's first year estimate of \$523,227 bodes true, there could be a surplus of approximately \$343,000 in Appropriation 12461-General City Pension Improvement in Non-Departmental by the end of this fiscal year. The projected surplus can then be applied to the \$155 million accumulated deficit.

Now that Council is in receipt of the appropriate actuarial report, Council could consider an amendment to the pension ordinance reflecting your minimum pension increase based on the language you agreed to as indicated above.

The Law Department should respectfully submit an amended pension ordinance to your Honorable Body that comports to your language, approved as to form. If Council approves the ordinance amendment, the ordinance could be introduced. Then, it would lie on the table for 90 days after receipt of the actuarial valuation.

After 90 days, the Council could take final action effectuating the pension ordinance amendment that would support the General retiree minimum pension increase.

#### Attachment

cc: Council Divisions  
Auditor General  
Shirley Lightsey, President, DRCEA  
Gerald Fischer, DRCEA  
Roger Short, Finance Director  
Pamela Scales, Budget Director  
Walter Stampor, Executive Secretary, General Retirement System  
Kandia Milton, Mayor's Office



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October 18, 2007

To: Mr. Gerald Fischer, Detroit Retired City Employees Association

From: Norman L. Jones and Judith A. Kermans, Actuaries

Re: **Increases for Current Retirees and Beneficiaries**

Presented in this memorandum are the results of an actuarial valuation to measure the financial effect of proposed pension increases for retired members of the Detroit General Retirement System.

The valuations were based upon the same data and actuarial assumptions used in the last regular annual actuarial valuation as of June 30, 2006. Increases in liabilities were amortized as level percents of each division's payroll over a period of 15 years.

Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless noted otherwise. Actuarial assumptions are adopted by the Retirement Board of Trustees. In particular:

- The assumed rate of investment return was 7.9%.
- The valuation method was entry-age normal cost.
- For purposes of amortizing unfunded accrued liabilities, payroll was assumed to increase 4% per year.

Supplemental valuations do **not** predict the result of future actuarial valuations. (Future activities can affect future valuation results in an unpredictable manner.) Rather, supplemental valuations give an indication of the probable effect of the **change only** on future valuations without comment on the complete end result of the future valuations.

Data included in the valuation is summarized below:

<u>Division</u>	<u>Retired Before 7/1/2006</u>	
	<u>Number</u>	<u>Annual Pensions (\$ millions)</u>
- General City	7,638	\$ 112.4
- D-DOT	1,617	22.2
- Water	1,714	30.3
- Sewage	267	4.7
- Library	305	5.6
- Total	11,541	\$175.2

# CITY OF DETROIT GENERAL RETIREMENT SYSTEM

## PROPOSED PENSION INCREASE FOR ALL RETIREES AND BENEFICIARIES

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**Base:** The minimum annual pension benefit at retirement is equal to \$360 times the first 10 years of service plus \$120 times years of service over 10 years.

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**Proposal:** Increase the minimum annual pension benefit at retirement to \$360 times the first 10 years of service plus \$180 times years of service over 10 years effective June 30, 2007.

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### VALUATION RESULTS

	General City	D-DOT	Water	Sewage	Library	Total
• Increase in actuarial accrued liabilities	\$5,053,163	\$1,145,504	\$993,023	\$84,348	\$121,280	\$7,397,318
• 15 year amortization of liability increase						
- % of covered payroll	0.21%	0.19%	0.16%	0.02%	0.07%	0.17%
- 1 <sup>st</sup> year dollars based on valuation payroll	\$ 427,154	\$ 96,073	\$ 83,128	\$ 7,994	\$ 10,679	\$ 625,028

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### COMMENTS

- It was assumed that pensions upon which future increases are based **would also** change. If that is not the case, the contribution rate increase in based on a 15-year amortization period would be 0.15% of pay rather than 0.17% of pay.